

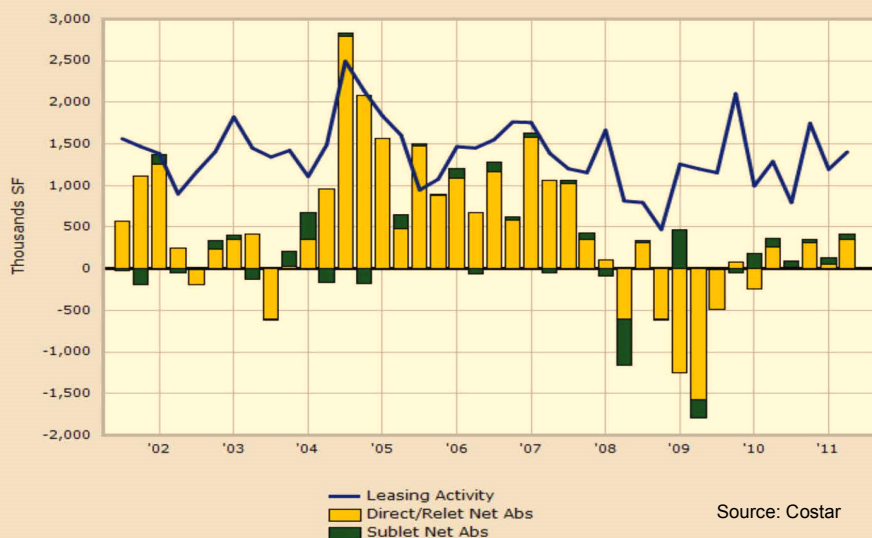
State of the Market—Orlando

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Industrial Property

August 2011

Year to date, the Orange, Osceola and Seminole County area has experienced 303,093 sq. ft. of net warehouse absorption on above average leasing activity (spaces larger than 20,000 sq. ft.). Absorption is a net increase in the overall occupancy, i.e. a decrease in vacancy. The area's industrial vacancy is trending downward slightly to 12.3% from 12.5% since year end. Leasing activity can exceed absorption because of businesses downsizing, businesses leaving the area, or business failures. Leasing activity with little resulting absorption is a reallocation of tenants to the right size and in many cases to higher quality properties. This consolidation is an important and necessary process after a recession, but while the leasing activity is close to the 10-year average, annualized absorption of about 500,000 sq. ft. is low and therefore disappointing. The market appears to have bottomed out twelve months ago, but the recovery is agonizingly slow.



Orange County's 2011 leasing activity represented 53 leases over 10,000 sq. ft. - 28 of which were between 10,000 and 25,000 sq. ft., but represented only 15% of the absorption. Several vacancies in the over 150,000 sq. ft. range were offset by 700,000 sq. ft. of positive absorption in mid-range tenant sizes. Average months on the market (MOM) is 22.6 months. Percentage vacancy for spaces less than 90,000 sq. ft. is below the 12.4%

Orange County Leases - 2011

Lease Size-sq.ft.	Leases YTD	Absorb YTD	# Leases	MOM	Rent	% Vacy
10,000 to 25,000	350,000	46,110	28	18.4	\$ 5.85	10.0%
25,000 to 50,000	374,290	251,493	10	20.0	\$ 4.92	11.5%
50,000-90,000	504,984	312,055	7	21.4	\$ 4.56	8.6%
90,000- 150,000	638,807	241,457	5	26.3	\$ 4.11	15.8%
>150,000	735,612	(548,022)	3	21.0	\$ 4.04	15.3%
Total - 6 months	2,603,693	303,093	53	22.6	\$4.29	12.4%

overall vacancy for all spaces at 9.9%, while buildings over 90,000 sq. ft. have a 15.4% vacancy factor. Asking rents increase from \$4.04 for larger spaces to an average of \$5.85 per sq. ft. per year for spaces under 25,000 sq. ft.

From a tenant's or buyer's perspective, "deals" are specific to the size space you are seeking and the special features you require. You might not be able rent

a "B" quality 30,000 sq. ft. space for \$4.00 per sq. ft., but a 100,000 sq. ft. lease prospect might find several alternatives at that rate. From a landlord's perspective, space is not moving quickly, so pricing your property below the average for that size range will get you a lot more exposure and help shorten your months on the market.

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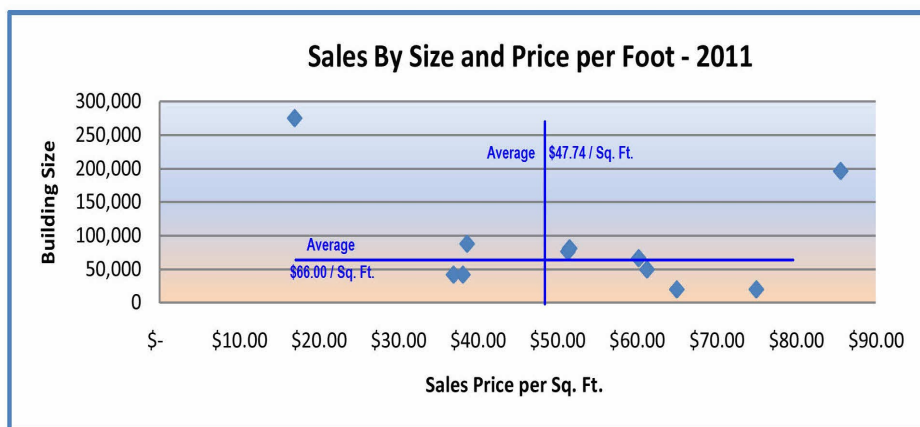
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Sales transactions are near historic lows – 11 arms length transactions of buildings over 20,000 sq. ft. in seven months vs. 126 in calendar year 2005, a 92% decline. The average sales price is unchanged from last year with a weighted average of \$47.74 per sq. ft. The 11 sales ranged from \$16.52 per sq. ft. to \$87 per sq. ft. Two of the recently sold properties had unusually large sites relative to the building size. I adjusted both of these comparable prices down to reflect a building to land ratio of 0.25. The median sale size was 66,000 sq. ft., up significantly from 2010 when sales in the 20,000 sq. ft. range predominated. The sales prices are generally consistent with reported lease rates above. The tax assessor reported an additional 16 non-arms length transactions; those between affiliated parties, sold under duress, and to or from a financial institution. These ranged from \$4.85 per sq. ft. to \$80.47 per sq. ft. with a weighted average by size of \$34.00 per sq. ft. With property values down



generally 35% from 2008, there are a number of owners that are upside down with their mortgage – they owe more than the property is worth in today's market. Still, the owners left standing seem to have better ability to hold on than those selling at the beginning of the downturn.

Until prices recover, these distressed properties could threaten price stability and indirectly threaten rent stability. Much like the residential market, lenders appear to be delaying foreclosures, which lends an aura of uncertainty to the market. There is a wide distribution of prices but the weighted average price appears to have stabilized on very low sales transaction volumes over the past twelve months.

A two tier sales market has developed nationwide with institutional quality "investor" properties selling at low cap rates (high prices), but user properties still selling below replacement cost. A partial explanation is that the Fed is attempting to prime the recovery by holding interest rates down and by pushing money into the system. With 10-year treasuries trading in the 2% range, institutional investors are seeking higher yields and perhaps long-term inflation protection by buying prime real estate. A 6% to 7% return looks attractive from this perspective. For non-investment-grade properties, which characterize many of Central Florida's industrial properties, the ratio of rent to value is in the 9% to 9.5% range. Local investor concerns include the difficulty in financing for non-institutional properties, possibly long periods of vacancy, and general concern about the state of the economy.

Jobs are the key to recovery of the Central Florida commercial real estate market. Unemployed people do not occupy commercial space. Commercial property occupancy is likely to rise in direct proportion to increases in employment.

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